WEEKLY COMMENTARY

Crude Oil Exports Are Driving Economic Growth Again in Alberta

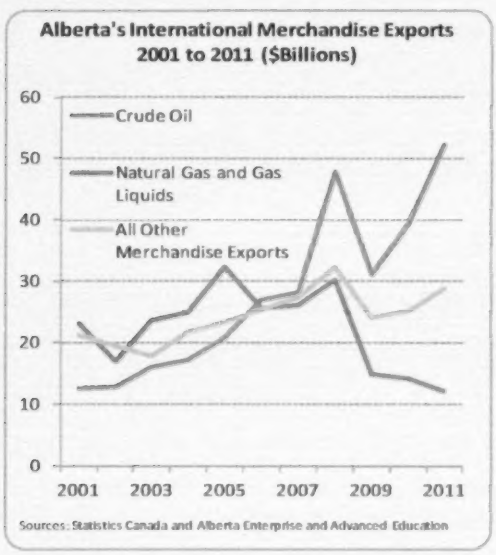
November 20, 2012

Highlights:
Surging crude oil exports provided a large boost to exports and to economic growth in 2011 and oil exports are again growing rapidly in 2012. Strong growth in oil volumes is mainly the result of very strong growth in oil sands production, and to a lesser degree because of a small recovery in conventional oil production.

Alberta
Government

International merchandise exports are a major driver of Alberta's economy, accounting for between 30% and 40% of Alberta's Gross Domestic Product (GDP). Moreover, Alberta is Canada's second largest exporter behind Ontario; Alberta's share of Canadian commodity exports reached 22% in 2011.

In Alberta, merchandise exports are dominated by crude oil and natural gas with the share of oil and gas out of total exports ranging from 61% to 71% over the 10-year period (2001 to 2011). Other commodity exports include manufactured goods, agricultural products and coal and sulphur.



During the past 10 years, Alberta's merchandise exports grew by 63% to $93.1 billion in 2011. However, all of this export growth was the result of higher exports of crude oil, which more than quadrupled in value over the same period. Crude oil prices rose 150% between 2001 and 2011 and oil export volumes rose sharply by 64% as exports of crude bitumen and synthetic crude oil more than tripled. In 2011, the oil sands producers accounted for an estimated 72% of the total volume of Alberta's crude oil exports, up from 39% in 2001. Volume growth has been especially strong during the past two years (2011 and 2012): oil sands production was rising sharply because of a number of new projects entering the production phase; and conventional oil output rebounded.

Over the same time period (2001 to 2011), exports of natural gas and gas liquids underwent a sharp downward adjustment with the value of these exports falling by one-half. Gas prices declined 38% over the past 10 years and gas volumes dropped 18%. Although gas volumes declined partly because of declining reserves in Alberta, surging shale gas output in the US may have played an even larger role, especially in the price decline.

Alberta's other exports performed well, for instance the value of exports of manufactured goods rose 31% and primary agricultural exports increased by 58%. The strongest growing manufacturing sectors were refinery products such as diesel fuel (up 210% between 2001 and 2011), primary metals (up 221%), machinery (up 155%), fabricated metals (up 98%) and chemicals (up 92%). The rise in agricultural products was the result of crop exports doubling over that period, while livestock exports dropped by one-third.

In 2012, Alberta exports have continued to grow at a strong pace: in the first nine months of 2012 the total value of merchandise exports grew by 4.1% from the same period of 2011 to $71.8 billion. As in other years all of the increase in 2012 can be attributed to higher crude oil exports which rose 16% and now account for more than 60% of Alberta's goods exports. Crude oil volumes increased by 13% and prices by 3%. Natural gas and gas liquids exports dropped by 41% over the same period mostly as a result of a 40% decline in natural gas prices (gas liquids had much smaller declines); natural gas volumes have dropped by 6.5% in 2012. Exports of manufactured goods rose 1.9% in the first nine months of 2012 on higher sales of refinery products, processed food products and oil and gas field machinery and equipment. Primary agricultural exports increased 15% on strong growth for canola, wheat and live cattle.

On a year-to-date basis Alberta's export volumes have grown by an estimated 7.5%, primarily due to the 13% jump in oil volumes but also due to strong growth in export volumes of refinery products, canola and oil and gas field machinery and equipment. This should provide a boost to Alberta's 2012 overall economic growth as well, as international merchandise exports have recently accounted for more than 30% of GDP.

All of this year's growth in the value of Alberta's exports took place during the first four months of 2012, when their value rose 14%. Between May and September 2012, the value of exports declined by 3.5% from the same period of 2011. The recent weakening in the value of exports is entirely the result of lower prices, especially for oil and gas. Export volumes continued to rise strongly during the last five months (May to September) on higher oil and refinery product volumes.

In conclusion, rising oil sands production and a rebound in conventional crude oil production have led to a recent resurgence in oil export volumes. Because crude oil accounts for more than one-half of Alberta's international merchandise exports and international exports account for more than 30% of GDP, rising oil volumes provided a major boost to economic growth in 2011 and a similar pattern is emerging in 2012.

Alberta Merchandise Exports by Industry in 2011 and 2012

EXPORTS By Industry ($Millions)	January - September 2011	2012	Percent Change
Total – All Industries	69,013	71,840	4.1%
Primary Agriculture	3,230	3,711	14.9%
Crops	2,797	3,206	14.6%
Livestock	433	505	16.7%
Mining & Energy	48,917	50,887	4.0%
Crude Oil	38,184	44,413	16.3%
Natural Gas & Natural Gas Liquids	9,589	5,688	-40.7%
Coal	647	523	-19.2%
Sulphur	459	212	-53.8%
Other Mining & Energy	39	50	29.7%
Manufacturing	16,360	16,670	1.9%
Chemicals	5,426	4,930	-9.1%
Food, Feed, & Beverage	2,464	2,676	8.6%
Machinery	2,458	2,545	3.5%
Primary Metal Products	1,162	938	-19.3%
Paper Products & Wood Pulp	1,151	1,172	1.8%
Petroleum Products & Wood Pulp	1,394	1,835	31.6%
Computer & Electronic Products	414	501	21.0%
Wood Products	421	440	4.5%
Fabricated Metal Products	510	612	20.0%
Transportation Equipment	393	420	6.8%
Electrical Equipment, App. & Comp.	183	171	-6.4%
Plastics & Rubber Products	179	228	27.7%
Furniture & Related Products	61	67	10.2%
Non-metallic Mineral Products	70	63	-10.1%
Other Manufacturing	76	74	-2.4%
Other Exports	502	570	13.6%

Sources: Statistics Canada and Alberta Enterprise and Advanced Education